

Docket:	:	<u>A.08-02-001</u>
Exhibit Number	:	<u>DRA-07</u>
Commissioner	:	<u>Simon</u>
ALJ	:	<u>Wong</u>
Witness	:	<u>Scott, W.A.</u>



**DIVISION OF RATEPAYER ADVOCATES  
CALIFORNIA PUBLIC UTILITIES COMMISSION**

**DRA Report on the Application of  
San Diego Gas & Electric and  
Southern California Gas Company  
Biennial Cost Allocation Proceeding  
Phase II**

**Audit of SDG&E Regulatory Accounts**

San Francisco, California  
November 21, 2008

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1       **San Diego Gas & Electric and Southern California Gas Company**  
2                               **Audit of Regulatory Accounts**

3       **I.       INTRODUCTION**

4               This exhibit contains the Division of Ratepayer Advocates' ("DRA") audit  
5 recommendations for San Diego Gas and Electric Company's ("SDG&E's") regulatory assets  
6 and liabilities as of December 31, 2007. DRA's audit corresponds to the Prepared Testimony  
7 of Mr. John A. Roy, dated July 2, 2008. DRA responds to SDG&E's proposal to eliminate  
8 certain regulatory accounts.

9               DRA reviewed and analyzed SDG&E's complete recorded general ledger activity,  
10 accounts and preliminary statements. DRA's recommendations are based on actual recorded  
11 data provided by SDG&E for December 31, 2007.

12              SDG&E has submitted a forecast of these same named accounts and they are  
13 presented in SDG&E testimony in its BCAP Application (A.)08-02-001.<sup>1</sup> DRA's audit review  
14 of these regulatory asset and liability accounts are of the actual general ledger recorded  
15 balances as of December 31, 2007, while SDG&E's testimony shows the same listed  
16 accounts, but with SDG&E's forecast of these balances as of December 31, 2007. Table 1  
17 shows the complete summary of SDG&E regulatory accounts (recorded).

18              DRA recommends no adjustments to any of SDG&E's regulatory account balances at  
19 December 31, 2007. DRA does not oppose SDG&E's proposed elimination of regulatory  
20 accounts as discussed in this testimony.

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<sup>1</sup> A.08-02-001, Testimony of John A. Roy, Attachment 12, volume 4 of 4, dated February 4, 2008.

TABLE 1  
SDG&E  
REGULATORY ASSET & LIABILITY ACCOUNTS  
DECEMBER 31, 2007 (RECORDED)

Account Description	G.L. No.	Balance December 2006	Balance December 2007	(Over) Under Coll'd
Core Fixed Cost Account (CFCA)	1150484	\$ 18,787,076	\$ 21,221,408	Under
Non-core Fixed Cost Account (NFCA)	1150485	\$ 2,552,592	\$ 1,737,677	Under
Gas Storage Balancing Account (GSBA) Non-core	1150372	\$ 424,608	\$ 583,792	Under
Gas Storage Balancing Account (GSBA) Core	1150367	\$ 7,178,284	\$ 11,366,414	Under
Rewards & Penalties Balancing Account	1150402	\$ 10,843,970	\$ 6,323,301	Under
Self-generation Program Memorandum Account (SGPMA)	2190111	\$ (2,800,965)	\$ (2,573,218)	(Over)
Hazardous Substance Cleanup Cost Account (HSCCA)	1150314	\$ -	\$ -	ZERO
FERC Settlement Proceeds Memorandum Account	1150466	\$ (393,835)	\$ 80,984	Under
Gain / Loss on Sale Memorandum Account (GLOSMA)	2190177	\$ -	\$ (1,234,655)	(Over)
Natural Gas Supplier Refund Account (NGSRA)	2190733	\$ (775,158)	\$ (815,357)	(Over)
EPNG Refund Account -1997	2197034	\$ (42,222)	\$ (44,412)	(Over)
EPNG Refund Account -1998	2197035	\$ (131,373)	\$ (138,186)	(Over)
Wheeler Ridge Refund Account	2197036	\$ (155,764)	\$ (163,841)	(Over)
Curtailment Penalty Funds Account (CPFA)	2190113	\$ (3,923,011)	\$ (4,126,457)	(Over)
Core Fixed Cost Sub-Account SoCalGas (FCA) Core	1150484	\$ 1,167,494	\$ 2,106,174	Under
Non-core Fixed Cost Sub-Account SoCalGas-FCA Ncore	1150485	\$ 2,193,588	\$ 1,566,940	Under
Core Fixed Cost Sub-Account Other fixed Asset (FCA) Core	1150484	\$ 1,421,802	\$ 2,492,278	Under
Non-core Fixed Cost Sub-Account Other fixed Asset-FCA	1150485	\$ 992,732	\$ 2,161,269	Under

## II. DISCUSSION / ANALYSIS OF REGULATORY ACCOUNT ELIMINATIONS

### A. DRA Audit Summary of Proposed Elimination of Regulatory Accounts

SDG&E proposes that certain regulatory asset and regulatory liability accounts be eliminated. DRA has provided a list and summary of these proposed regulatory accounts as follows:

Table 2 scheduled recommendations.

TABLE 2  
San Diego Gas & Electric Company  
B-CAP-2009 Application A.08-02-001  
Summary of "Proposed" Elimination of Regulatory Accounts

Regulatory Account Description	G.L Account	Balance 12/31/2006	Balance 12/31/2007	(Over)Under Collection
Natural Gas Vehicle Adjustment Clause Account (NGVA)	1150313	\$ 16,972	\$ 666,843	under
California Solar Initiative Balancing Account (CSIBA)	2190182	\$ -	\$ -	Zero
Advanced Metering Infrastructure Memorandum Account (AMIMA)	1150487	\$ -	\$ -	Zero
Interstate Transition cost Surcharge Account (ITCS)	2190077	\$ -	\$ (152,751)	Over
Core Interstate Transition Cost Surcharge Account (CITCSA)	2190067	\$ -	\$ -	Zero
Baseline Balancing Account (BBA)	1150428	\$ 90,820	\$ 27,129	Under
Research Development & Demonstration (RD&D) Balancing Account-(Pre-2001)	2190069	\$ (272,432)	\$ (60,093)	Over
Fiber Optic Cable in Gas Pipelines Services Account (FIGA)	None	\$ -	\$ -	Zero
Cogeneration Shortfall Memorandum Account (CSMA)	None	\$ -	\$ -	Zero
Gas Demand-Side Management (DSM) Memorandum Account (DSMMA)	None	\$ -	\$ -	Zero
Global Settlement Tracking Account (GLOBAL)	None	\$ -	\$ -	Zero
Allocation of Pacific Interstate Transmission Company (PITCO)	None	\$ -	\$ -	Zero
Allocation of Pacific Offshore Pipeline Company (POPCO) Excess Costs	None	\$ -	\$ -	Zero
Natural Gas Supplier Refunds Account (NGSRA)	None	\$ (1,162,000)	\$ -	Zero

## B. DRA Audit Findings and Recommendations for Proposed Elimination of Regulatory Accounts

- Natural Gas Vehicle Adjustment Clause Account

SDG&E requests authority to eliminate its Natural Gas Vehicle Adjustment Clause ("NGVA"). NGVA records program costs and revenues as authorized by the Commission in D.03-10-086, dated and effective October 30, 2003. D.03-10-086 concluded that funding for the NGV program would terminate at the end of 2005. However, D.05-05-010 extended discretionary funding for the program until a final Commission decision on SDG&E's next low emission vehicle funding request in its General Rate Case ("GRC") or Cost of Service proceeding. In its 2008 GRC application, A.06-12-009, SDG&E requested that the NGV program be funded through a new SoCalGas Shared Services organization that will be created in the year 2008. Once this funding receives Commission approval, SDG&E proposes to eliminate the NGVA.

Confirmation: DRA's finding of Natural Gas Vehicle Adjustment Clause Account

(NGVA), General Ledger account number 1150313 shows an actual undercollected balance at December 31, 2007 of \$666,843. For the same period SDG&E forecasted an undercollection of \$0.5 million.

Proposal: Since the account will no longer be needed, DRA recommends that SDG&E's request to eliminate this account be adopted. However, the Commission must make the necessary adjustment reconcile SDG&E's forecast for actual recorded balance to be transferred between the CFCA and NFCA.

- California Solar Initiative Balancing Account

According to SDG&E, the purpose of the California Solar Initiative ("CSI") Balancing Account is to record the CSI Program costs and Revenue Requirement beginning on January 1, 2007 as outlined by D. 06-01-024. Later, Senate Bill (SB) 1 mandated that CSI program costs no longer be funded by customers through gas rates. D.06-12-033 implemented SB-1 and directed SDG&E to carryover any unspent SSGIP/CSI solar funds to its 2007 SGIP renewable budget. Consistent with D.06-12-033, SDG&E transferred any remaining solar funds in the CSIBA at December 31, 2007 to the SGPMA.

Confirmation: DRA's finding shows that General Ledger account no. 2190182, the CSIBA, balance at December 31, 2007 is zero.

Proposal: DRA recommends that the Commission approve the elimination of CSIBA regulatory account since it is no longer needed.

- Advanced Metering Infrastructure Memorandum Account (AMIMA)

The purpose of the AMIMA is to record and recover the incremental pre-deployment operating and maintenance expenses incurred as a result of advanced metering infrastructure (AMI) pre-deployment prior to AMI program implementation. The AMIMA is allocated 76% and 24% between electric distribution and gas distribution, respectively. At the end of each year, the balance in the AMIMA is transferred to the Rewards and Penalties Balancing Account (RPBA) for rate recovery. The RPBA is included in the Regulatory Account update advice letter filed in October of each year, with rates effective the following January 1<sup>st</sup>. D.07-04-043,

1 dated April 12, 2007, authorized the implementation of AMI and its costs and  
2 revenues to be recorded in the newly created AMI Balancing Account.

3 Confirmation: DRA's finding shows that AMIMA regulatory account General Ledger  
4 no. 1150487 has a zero balance. SDG&E advises that its forecast indicates that  
5 there may be an under-collection of \$0.9 at the end of December 31, 2007.

6 Proposal: Since the record shows no balance in AMIMA at December 31, 2007 and  
7 further that SDG&E has testified that this account is no longer needed, DRA  
8 recommends that the Commission approve the elimination of this Memorandum  
9 Account.

10  
11 • Interstate Transition Cost Surcharge Account (ITCS)

12 The ITCS account records all interstate transition costs. These costs  
13 represent that portion of the Southern California Gas Company (SoCalGas)  
14 Interstate capacity obligations which are passed through to San Diego Gas and  
15 Electric Company (SDG&E) in SoCalGas' transportation rates. As of January 1,  
16 2009, SDG&E plans no further ITCS costs from SoCalGas<sup>2</sup> due to the expiration of  
17 its "Transportation Service Agreement." The ITCS balance is forecasted to be over-  
18 collected by \$0.1 million as of December 31, 2007 and \$0.03 million by December  
19 31, 2008. Since the account will no longer be needed, SDG&E proposes to transfer  
20 the December 31, 2008 balance between the CFCA and NFCA accounts and  
21 eliminate the ITCS Account.

22 Confirmation: DRA finds that General Ledger account number 2190077 shows an  
23 over-collected balance of \$(152,751).

24 Proposal: DRA recommends the transfer of this account to CFCA and NFCA and  
25 closure of the ITCS.

26  
27 • Core Interstate Transition Cost Surcharge Account (CITCSA)

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<sup>2</sup> SoCalGas A.L. 3668 dated October 13, 2006, notes the expiration of the Transportation Agreement effective September 1, 2006. SoCalGas A.L. 3781 dated October 15, 2007, reflects the minimal amount to be amortized in its ITCSA in 2008. A.08-02-001, B-CAP 2009, Attachment F, Testimony of JAR, Page 13, para 1.

1 The CITCSA records the differential between SDG&E's actual brokered  
2 capacity cost and the above market cost of its reservation of firm capacity on the El  
3 Paso Natural Gas Company pipeline system. The CITCSA was deactivated in  
4 September 2001, because the brokered capacity cost exceeded the reservation  
5 costs.<sup>3</sup> The remaining balance at the time was transferred to the Purchase Gas  
6 Account. The CITCSA balance is zero and is no longer needed, therefore, SDG&E  
7 proposes to eliminate the CITCSA.

8 Confirmation: DRA finds that CITSCA General Ledger account number 2190067,  
9 balance at December 31, 2007 is zero.

10 Proposal: DRA recommends the elimination of this account.

11  
12 • Baseline Balancing Account (BBA)

13 The BBA records the revenue under/over collection associated with baseline  
14 allowance changes as authorized in D.02-04-026, and modified by D.02-05-010,  
15 from May 31, 2002 until May 1, 2004. The BBA maintains revenue neutrality for  
16 SDG&E until customer rates are revised in conjunction with the baseline allowance  
17 changes. D.04-02-05, dated February 26, 2004, adjusted residential gas rates to  
18 eliminate the on-going baseline shortfalls.<sup>4</sup> The BBA balance is forecasted to be  
19 under-collected by \$0.01 million as of December 31, 2007 and the balance at  
20 December 31, 2008 to be transferred to the CFCA. SDG&E proposes to eliminate  
21 the account.

22 Confirmation: DRA finds that General Ledger account number 1150428 shows a  
23 recorded balance of \$27,129 undercollected at December 31, 2007.

24 Proposal: DRA recommends that the BBA be eliminated.

25  
26 • Research Development and Demonstration Balancing Account (RD&D)

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<sup>3</sup> Advice letter 1267-G, dated July 31, 2001 requested the deactivation of the CITCSA, which was approved by the Commission on April 18, 2002. A.08-02-001, BCAP-2009, Attachment F, Testimony of JAR, page 13, para 2.

<sup>4</sup> Advice letter 1447-G, dated April 12, 2004 adjusted residential gas rates to eliminate the ongoing baseline shortfalls. A.08-02-001, Attachment F, testimony of JAR, page 13, para 3.



1 The RD Balancing Account was initially authorized by D. 88-09-063, dated  
2 September 28, 1988, in SDG&E's 1989 GRC. The purpose of the account is to  
3 record the actual costs associated with the authorized public interest research,  
4 development and demonstration program and associated revenues.<sup>5</sup> Resolution  
5 G-3303, dated December 21, 2000, as directed by Assembly Bill 1002, in part  
6 adopted gas public purpose program (PPP) surcharge rates effective January 1,  
7 2001. D.04-08-010 authorized utilities to modify their regulatory accounts to  
8 facilitate the unbundling of PPP costs from their rates. As of January 1, 2005,  
9 pursuant to D. 04-08-010, the purpose of this account was to record the gas  
10 surcharge collected from non-exempt customers that will be remitted to the State  
11 board of Equalization (BOE) to fund programs administered by the California Energy  
12 Commission (CEC) or other non-utility designated by the Commission.  
13 The RD&D Account has Pre-2001 and Post 2000 sub-accounts to record expenses  
14 and revenues for the applicable time frames.

15 The RD&E Account, Pre-2001 subaccount balance is forecasted to be over-collected  
16 by \$0.06 million as of December 31, 2007 and December 31, 2008. Since the sub-  
17 account will no longer be needed by SDG&E, SDG&E proposes to transfer the  
18 December 31, 2008 balance between the CFCA and NFCA accounts and eliminate  
19 the Pre-2001 sub-account.

20 Confirmation: DRA finds that RD&D, General Ledger account number 2190069,  
21 regulatory Liability Account, Subaccount Post 2000 has an overcollection of \$8,936  
22 and Subaccount Pre-2001 has an overcollection balance of \$60,029.

23 Proposal: DRA finds that General Ledger Account no. 2190069 is over-collected by  
24 \$69,029 at December 31, 2007, on a recorded basis. DRA recommends that the  
25 balance be transferred to CFCA and NFCA, and that the Pre-2001 subaccount be  
26 eliminated since it will no longer be needed.

27

- 28 • Fiber Optic Cable in Gas Pipeline Account (FIGA)

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<sup>5</sup> Application A.08-02-001, Testimony of JAR, Attachment F, Page 14, para 2.

1 The FIGA records the capital component of Fiber Optic Cable in Gas Pipeline  
2 Services Account program revenues associated with the use of SDG&E's gas  
3 distribution system as authorized in D.03-04-017, dated October 2, 2003. It  
4 authorized SDG&E to establish a new service allowing telecommunication and cable  
5 TV companies to place Fiber optic cable in SDG&E's active gas pipelines.  
6 In D.04-12-015, dated December 2, 2004, the Commission authorized the revenue  
7 from FIGA to be recorded as miscellaneous revenue. Therefore, the FIGA is no  
8 longer needed.

9 Confirmation: DRA confirmed that there is no general ledger account and that the  
10 regulatory account balance was zero.

11 Proposal: DRA recommends that since the FIGA account is no longer needed and  
12 since there is no balance at December 31, 2007, that this account be eliminated.  
13

14 • Co-Generation Shortfall Memorandum Account (CSMA)

15 The purpose of the CSMA, pursuant to Resolution G-3062, is to track the  
16 shortfall in co-generation revenues that resulted from the co-generation actual rates  
17 being different from co-generation default rates adopted in the utility's last gas cost  
18 allocation proceeding. No shortfall has ever been recorded in the CSMA, so the  
19 account balance is zero, and given the current EG rate design, the account is no  
20 longer needed.

21 Confirmation: DRA has found that the CSMA balance at December 31, 2006 and at  
22 December 31, 2007, was zero

23 Proposal: DRA recommends that this account should be eliminated.  
24

25 • Gas Demand-Side Management (DSM) Memorandum Account (DSMMA)

26 The DSA was approved by D.92-12-019 to track the unamortized DSM  
27 balance or "true-up amount" remaining from the elimination of the gas "Efficiency  
28 Balancing Account" (GEBA). Pursuant to D.92-12-019, the "true-up amount"  
29 remaining from the elimination of the GEBA shall be placed in the DSMMA where it  
30 will accrue interest through 1993 and will be included in SDG&E's 1994 attrition

1 filing. Since the balance in the account is currently zero and the account is no  
2 longer needed, SDG&E proposes that the DSMMA be eliminated.

3 Confirmation: DRA confirmed that the balance is zero and there is no General  
4 Ledger regulatory account for DSMMA.

5 Proposal: DRA recommends that this memorandum account DSMMA be eliminated.  
6

7 • Global Settlement Tracking Account: (GLOBAL)

8 The GLOBAL tracks the revenues collected from customers for the payment  
9 of SDG&E's financial obligation to SoCalGas as adopted in D.94-07-064, the  
10 SoCalGas Global Settlement Agreement decision. The GLOBAL entries are only  
11 for tracking purposes and are not recorded in the SDG&E general ledger.

12 The Global Settlement Prepayment Balancing Account (GSPBA) recorded the  
13 revenues collected from the customers to prepay the Global Settlement as adopted  
14 in D.94-07-064. The GSPBA account was eliminated in accordance with  
15 Commission D.00-04-060 in the SDG&E 1999 BCAP proceeding.

16 Confirmation: DRA finds that there is no General Ledger account for GLOBAL.  
17 The GSPBA account was eliminated in the 1999 BCAP. There is no GSPBA  
18 account to track.

19 Proposal: DRA recommends that GLOBAL be eliminated.  
20

21 • Allocation of Pacific Interstate Transmission Company (PITCO) and  
22 of Pacific Pipeline Company (POPCO) Excess Costs (APPEC)

23 The allocation of these costs ended with the elimination of the GSPBA as  
24 authorized by SDG&E's 1999 BCAP D.00-04-060. There is no General Ledger  
25 account for these two items. SDG&E proposes that along with the elimination of  
26 GSPBA which was eliminated in the 1999 BCAP, the APPEC should also be  
27 eliminated.

28 Confirmation: DRA confirms no General Ledger regulatory account exists for the  
29 above account.

30 Proposal: DRA joins SDG&E and proposes the elimination of APPEC.  
31

1       •       Natural Gas Supplier Refunds Account (NGSRA)

2           The NGSRA records refunds received from natural gas suppliers in the form  
3 of lump-sum payments pursuant to D.93-04-037, dated April 7, 1993. These refunds  
4 are maintained in the NGSRA until they exceed \$1 million, excluding interest. Once  
5 the refunds exceed \$1 million, SDG&E is to file, in connection with its Annual Report  
6 of Natural Gas Supplier Refunds, a Natural Gas Refund Plan, a proposal by which  
7 the supplier refunds will be refunded to SDG&E's customers. SDG&E has recorded  
8 \$0.8 million in the NGSRA, reflecting refunds received from November 1996 through  
9 June 1999. These refunds are to be returned to core customers.

10          The NGSRA balance is forecasted to be overcollected by \$1.2 million  
11 (including interest) as of December 21, 2007 and December 31, 2008. Given the  
12 inactivity in the account, even though the refunds have not exceeded the \$1 million  
13 level, SDG&E proposes to refund the balance to customers by transferring the  
14 estimated \$1.2 million over-collection to the Core Fixed Cost Account (CFCA).  
15 Since the NGSRA balance will then be zero and the account will no longer be  
16 needed, SDG&E proposed to eliminate the account.

17       Confirmation: DRA's audit has accounted for \$1,161,796 in overcollections reported  
18 in the SDG&E General Ledger. They are listed as follows: Account 2190733, PGT  
19 Refund, \$815,357; Account 2190734, EPNG Refund1997, \$44,412; Account  
20 2190735, EPNG Refund1998, \$138,186; and Account 2190736, Wheeler Ridge  
21 refund, \$(163,841).

22       Proposal: DRA proposes that the above listed regulatory liability accounts which are  
23 overcollected at December 31, 2007 be transferred to the Core-Fixed Cost account  
24 so that they may be refunded to customers, at that time when the listed accounts are  
25 in fact zero, DRA recommends that they be eliminated in the BCAP 2009.

26  
27

## **QUALIFICATIONS**

### **OF William A. Scott**

Q.1 Please state your name and address.

A.1 My name is William A. Scott. My business address is the Public Utilities Commission, Office of Ratepayer Advocates, 505 Van Ness Avenue, Room 4209, San Francisco, California 94102.

Q.2 By whom are you employed and in what capacity?

A.2 I am employed by the California Public Utilities Commission as a Public Utilities Financial Examiner IV.

Q.3 Will you please state briefly your educational background and work experience.

A.3 I graduated from the University of San Francisco in 1966; I have a Bachelor of Science degree with a Major in Accounting and Minor in Economics. I began work with the Commission in July 1988 and have worked in the Division of Ratepayer Advocates since April 1989.

My most recent assignments have been in connection with the Commission's Performance-Based Regulation Programs for natural gas procurement utilities. They are as follows: San Diego Gas and Electric Company, Southern California Gas Company and Pacific Gas and Electric Company where I have written audit monitoring and evaluation reports on the annual filed reports submitted by the utilities and filed these reports with the Commission. I have testified as a tax witness for the Office of Ratepayer Advocates in A.95-06-092. My reports have appeared as testimony for natural gas procurement activity and for electric resource procurement as required by the Commission during the periods, 1993 through 1998.

I have written testimony in the Pacific Gas and Electric "Electric Cost Adjustment Clause," (ECAC) application 97-04-001 dated April 1, 1997. In the past I have completed 26 Transportation Division Rate fund compliance audits and have participated in the Commissions Telephone Alternative Regulatory Framework (NRF) proceedings for Local Exchange Carriers, (I.87-11-033) phase 1,2 &3. I am currently participating in the Commissions Biennial Cost Allocation Proceeding, (A.08-02-001). I have completed an Audit report of the San Diego Gas & Electric Company's Recorded Regulatory Assets and Regulatory Liabilities as of December 31, 2008 on behalf of the Division of Ratepayer Advocates.

Q.4. What are your areas of responsibility in this Biennial Cost Allocation Proceeding, (A.08-02-001)?

A.4 I am sponsoring the Division of Ratepayer Advocates, Exhibit 7, Audit Report of San Diego Gas and Electric recorded Regulatory Accounts as of December 31, 2007.

Q.5 Does that complete your prepared testimony?

A.5 Yes, it does.